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Integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic, social and related fields

Follow-up to the outcome of the Millennium Summit

Implementation of decisions from the 2005 World Summit Outcome for action by the Secretary-General

Ethics office; comprehensive review of governance arrangements, including an independent external evaluation of the auditing and oversight system; and the independent audit advisory committee

Report of the Secretary-General

I. Introduction

1. The General Assembly, in its resolution 60/1 of 16 September 2005, entitled "2005 World Summit Outcome", requested the Secretary-General to, inter alia, take a number of actions for strengthening the United Nations in the context of Secretariat and management reform. The present report addresses the issues related to the General Assembly's request that the Secretary-General:

(a) Submit details on an ethics office with independent status, which he intends to create (para. 161 (d));

(b) Submit an independent external evaluation of the auditing and oversight system of the United Nations, including the specialized agencies, and the roles and responsibilities of management, with due regard to the nature of the auditing and oversight bodies in question; the evaluation would take place within the context of the comprehensive review of governance arrangements (para. 164 (b));

(c) Submit detailed proposals on the creation of an independent oversight advisory committee, including its mandate, composition, selection process and qualification of experts (para. 164 (c)).

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II. Ethics office

2. In paragraph 161 (d) of the World Summit Outcome, the General Assembly welcomed the Secretary-General's efforts to ensure ethical conduct, more extensive financial disclosure for United Nations officials and enhanced protection for those who reveal wrongdoing within the Organization. It also urged the Secretary-General to scrupulously apply the existing standards of conduct and develop a system-wide code of ethics for all United Nations personnel. In this connection, the Assembly requested the Secretary-General to submit to it at its sixtieth session details of an ethics office with independent status, which he intends to create.

3. The Charter of the United Nations, in Article 101, paragraph 3, provides that all staff members are required to meet the highest standards of efficiency, competence and integrity. The basic principles governing the conduct of staff members are spelled out in Staff Regulations approved by the General Assembly and the Staff Rules, which are promulgated by the Secretary-General and reported to the General Assembly. At the common system level, in 2001, the International Civil Service Commission revised and adopted the standards of conduct for the international civil service as set out in ST/SGB/2002/13 ("Status, basic rights and duties of United Nations staff members"). Although these documents are readily available to staff, there is currently no effective mechanism in place to coordinate ethics-related initiatives within the Organization and to ensure that all staff are actively aware of, and updated on, ethics issues.

4. Staff members expressed concern about the ethics climate within the United Nations in the 2004 integrity perception survey. Similar concerns were raised by the reports of the Independent Inquiry Committee on the oil-for-food programme. In addition, recent events have created the imperative to establish new mechanisms to improve ethics within the Organization. The creation of an ethics office is central to this effort. At the time of writing, the proposed terms of reference of the ethics office are under consultation with staff representatives.

5. The Secretary-General's report "In larger freedom: towards development, security and human rights for all" (A/59/2005), submitted to the General Assembly in March 2005, included broad proposals to accelerate management reform in the Secretariat, to make it more transparent and accountable and better equipped to deal with the needs and challenges of the twenty-first century. Since that time, some of the specific management reform initiatives considered as means to strengthen transparency, accountability and ethical conduct in the Secretariat have included reforming and expanding the regime of financial disclosure for senior officials, the creation of a policy of protection for staff members against retaliation for reporting suspected misconduct and annual ethics training for all staff. In addition, the establishment of a United Nations ethics office will provide a focal point within the Secretariat for ethics issues.

6. Certain details, including the related resource requirements, of the proposed ethics office are contained in section 1, Overall policymaking, direction and coordination, under part II of the revised estimates of the proposed programme budget for the biennium 2006-2007 (A/60/537), in relation to the World Summit Outcome document. Further details of the ethics office are set out for information purposes in annex I below.

III. Comprehensive review of governance arrangements, including an independent external evaluation of the auditing and oversight system

7. It is recalled that the General Assembly, in its resolution 57/278 A, requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system and to make proposals on the future format and consideration of the reports of the Board of Auditors by the respective executive boards and the General Assembly. This request was subsequently reiterated in resolution 59/264 A. Pursuant to paragraph 164 (b) of resolution 60/1, the Secretary-General has prepared terms of reference for a comprehensive review of governance arrangements, including an independent external evaluation of the auditing and oversight system of the United Nations, including the specialized agencies, including the roles and responsibilities of management, with due regard to the nature of the auditing and oversight bodies in question.

8. The Audit Operations Committee of the United Nations Board of Auditors, the Office of Internal Oversight Services and members of the High Level Committee on Management of the United Nations System Chief Executives Board for Coordination have been consulted on the terms of reference for the independent external evaluation, which appear in annex II below. The Secretary-General proposes that consultants undertake the review. It is proposed that a steering committee, composed of international independent experts in the field of governance and oversight, be established with the responsibility to coordinate and supervise the development and implementation of the entire project. The steering committee will be assisted in its role by the consultants, who will undertake the technical research and the drafting of the proposed evaluation.

9. The evaluation will consist of two main elements: a governance and oversight review, to be completed in two phases, and a review of the Office of Internal Oversight Services. Phase 1 of the governance and oversight review will apply to the United Nations and its funds, programmes and specialized agencies. Phase 2 will cover only the United Nations and selected representative funds, programmes and specialized agencies. Annex II provides information outlining detailed terms of reference for the evaluation. Some information is also provided, together with estimated resource requirements, under part II of the revised estimates of the proposed programme budget for the biennium 2006-2007 (A/60/537) in relation to the World Summit Outcome document.

IV. Independent Audit Advisory Committee

10. Pursuant to paragraph 164 (c) of General Assembly resolution 60/1, the Secretary-General is submitting herein detailed proposals on the creation of an independent oversight advisory committee. In this connection, it is noted that the Assembly did not assign a particular formal title. It did, however, indicate that the committee would be both independent and advisory with respect to oversight matters. This role would in practice focus on audit matters. It is therefore proposed that the formal title be the Independent Audit Advisory Committee. The provisional terms of reference, as presented for information purposes in annex III below, have

been drafted with this scope in mind. Some information is also provided, together with estimated resource requirements, under part II of the revised estimates of the proposed programme budget for the biennium 2006-2007 (A/60/537) in relation to the World Summit Outcome document.

11. The proposed terms of reference for the Independent Audit Advisory Committee draw on practices of public-sector management aimed at making organizations and Governments accountable for what they do. The purpose is to help the Secretary-General and the General Assembly better exercise governance responsibilities with respect to the various operations of the United Nations and to ensure that the United Nations audit processes are operating efficiently and effectively within their legal and policy responsibilities, pursuant to legislative mandates.

12. As requested by the General Assembly, the terms of reference include details on the required composition, level of independence and qualification of Committee members. It is proposed that the Committee consist of five or seven external experts and meet on a quarterly basis. In keeping with best practices, all Committee members must have relevant financial experience and be independent of the Secretariat and Member State Governments.

13. The above arrangements for the Independent Audit Advisory Committee would be subject to review in the context of the above-mentioned comprehensive review of governance arrangements, including the independent external evaluation of the auditing and oversight system. It should be noted that the proposed Independent Audit Advisory Committee is separate and distinct from the internal mechanism established by the Secretary-General to assist him in ensuring compliance, within the Secretariat, with recommendations arising from audits and investigations.

V. Conclusions and recommendations

14. **The General Assembly may wish to take note of the present report and its annexes and to approve:**

(a) **The establishment of an ethics office, as proposed above;**

(b) **The conduct of an independent external evaluation of governance, oversight and auditing in the United Nations system, as proposed above;**

(c) **The establishment of an Independent Audit Advisory Committee and its mandate, composition, selection process and qualification of experts, as proposed above.**

Annex I

Establishment of an ethics office

A. Overview of functions of the ethics office

Objective

1. The objective of the ethics office will be to assist the Secretary-General in ensuring that all staff members observe and perform their functions in consistency with the highest standards of integrity, as required by the Charter of the United Nations, through:

(a) Fostering a culture of ethics, transparency and accountability;

(b) Developing and disseminating standards for appropriate professional conduct;

(c) Providing leadership, management and oversight of the United Nations ethics infrastructure.

Main responsibilities

2. The main responsibilities of the ethics office will be as follows (further details of each of these activities are set out in section B below):

(a) Administering the Organization's financial disclosure programme;

(b) Undertaking the responsibilities assigned to it under the Organization's policy for the protection of staff against retaliation for reporting misconduct;

(c) Providing confidential advice and guidance to staff on ethical issues (e.g., conflict of interest), including administering an ethics helpline;

(d) Developing standards, training and education on ethics issues, in coordination with the Office of Human Resources Management and other offices as appropriate, including ensuring annual ethics training for all staff.

Confidential records

3. The ethics office will maintain confidential records of advice given by it and reports made to it.

Reporting

4. The ethics office will provide reports regularly to the Secretary-General. The reports will include an overview of the activities of the office and any evaluations and assessments conducted by it relating to such activities. While not disclosing the identity of persons who consult the ethics office, the reports will note the types of issues raised and patterns and trends identified. The office will also comment on rules, regulations, policies, procedures and practices that have come to its attention, and could make recommendations as appropriate.

Relationships with other offices

5. The ethics office will not replace any existing mechanisms available to staff for the reporting of misconduct or the resolution of grievances. For example, if a case of misconduct were reported to the ethics office, it would refer the matter to the Office of Internal Oversight Services for investigation. If the concern raised by a staff member related to an interpersonal problem within a particular office, the ethics office would advise the staff member concerned of the existence of the Office of the Ombudsman, as well as the other informal mechanisms of conflict resolution in the Organization.

6. The ethics office will develop working relationships with other offices and departments, including the Office of Internal Oversight Services, the Office of Human Resources Management, the Office of Legal Affairs and the Office of the Ombudsman, to ensure satisfactory coordination, consistent advice on law and policy and the making of appropriate referrals and/or recommendations.

B. Details of the main responsibilities of the ethics office

Administering the Organization's financial disclosure programme

7. Full disclosure of financial information is a safeguard both for individual staff members and for the Organization. It enables an informed judgement to be made with respect to a staff member's compliance with applicable conflict-of-interest rules and standards of conduct regulations, and it allows the staff member and the Organization to fashion appropriate protections against actual or potential conflicts of interest when they first appear.

8. The Organization's financial disclosure programme requires designated staff members to file a confidential statement of their financial interests every year. Until recently, only staff members at the level of Assistant Secretary-General and above were required to file financial disclosure statements. The Secretary-General has issued new rules on financial disclosure that extend the financial disclosure requirements to staff carrying out procurement and investment functions, in accordance with the request of the General Assembly in paragraph 10 of its resolution 52/252. The new rules also lower the financial disclosure threshold levels considerably: the threshold for assets and income from non-United Nations sources is lowered from $25,000 to $10,000 and the threshold for gifts from $10,000 to $250.

9. In addition, the General Assembly has before it for consideration the Secretary-General's report "Amendments to the Staff Regulations" (A/60/365), in which he has requested that the Assembly approve a change to staff regulation 1.2 (n) which would broaden financial disclosure requirements to include staff at the L-6, D-1, L-7 and D-2 levels and additional staff as deemed necessary by the Secretary-General.

10. The expanded financial disclosure programme will apply to approximately 1,000 staff in the United Nations Secretariat. While the ethics office will be responsible for administering the financial disclosure programme, it is proposed that the actual review and audit of financial disclosure forms be carried out by independent financial experts rather than the staff of the ethics office, in order to safeguard the confidentiality of senior officials' private financial information. This

recommendation is also based on the successful examples of the World Bank Office of Ethics and Business Conduct and the International Monetary Fund, which administer their financial disclosure programmes with the involvement of financial experts who carry out the actual review and audits of the financial disclosure forms. The independent experts would be fully briefed on the United Nations system and would receive copies of the job descriptions of the staff members whose financial disclosure forms they are reviewing in order to be able to identify conflicts of interest. They would also be able to clarify issues with the staff members concerned, directly or via the director of the ethics office. Where information disclosed (or not disclosed) indicated possible misconduct, the matter would be referred to the Office of Internal Oversight Services for investigation.

Protection of staff against retaliation for reporting misconduct

11. The policy for protecting staff against retaliation for reporting misconduct is not yet finalized and will be the subject of further consultations. In developing the draft policy, a review was carried out of whistle-blower protection legislation in many Member States, including the United States of America, the United Kingdom of Great Britain and Northern Ireland, Australia, Canada, South Africa, New Zealand, Israel and South Korea. The inclusion of the United Nations new programme of protection against retaliation as part of the proposed functions of the ethics office was a result of the proposal of an interdepartmental working group made up of representatives of the Office of Internal Oversight Services, the Office of Human Resources Management, the United Nations Development Programme, the Office of Legal Affairs and the Department of Peacekeeping Operations, the Office of the Ombudsman and a consultant recommended by Transparency International. The essential features of the current draft policy are as follows.

12. The ethics office will provide protection against retaliation to persons who report misconduct or who cooperate in official investigations. The programme is designed to encourage good-faith reporting of misconduct, as well as to discourage those who would either interfere with or retaliate for such reporting.

13. The ethics office will not have investigation functions. When a complaint of retaliation is received, the ethics office will conduct a preliminary review of the complaint to determine if there is a credible case of retaliation or threat of retaliation. If the office finds that there is a credible case of retaliation or threat of retaliation, it will refer the matter to the Office of Internal Oversight Services for investigation and may also recommend interim protection measures. If retaliation against an individual is established, the ethics office will, after taking into account any recommendations made by the Office of Internal Oversight Services or other concerned offices, and after consultation with the individual who has suffered retaliation, recommend appropriate measures aimed at correcting the negative consequences suffered as a result of the retaliatory action. Such measures may include, but are not limited to, reinstatement, rescission of the retaliatory decision or transfer to another office of that individual or the person who acted in retaliation against the individual.

Advisory function, to provide confidential advice and guidance to staff on ethical issues (e.g., conflict of interest), including administering an ethics helpline

14. One of the most important functions of the ethics office will be to provide guidance to staff on ethics issues in a neutral, non-judgemental and strictly confidential environment. The office will keep a record of advice provided in its confidential database. Staff members could seek advice from the ethics office or raise workplace concerns in a variety of ways, all of which would be confidential, including in person, by regular mail, fax or e-mail or via the ethics helpline.

Developing standards, training and education on ethics issues, in coordination with the Office of Human Resources Management

Developing standards

15. While the United Nations has in place detailed standards of conduct, they have not been effectively disseminated to staff. The ethics office will work with the Office of Human Resources Management on supplementing and explaining the existing staff regulations and rules and standards of conduct in a user-friendly way.

16. The ethics office will maintain oversight of the ethics infrastructure and recommend changes to rules, standards, policies or other factors as required to improve such infrastructure, including amendments to the financial disclosure rules as necessary.

Training and education

17. It will be essential for the ethics office to raise awareness throughout the Organization as to its establishment and functions, as well as the implementation of new and expanded programmes including in respect of protection against retaliation, the financial disclosure regime, annual ethics training requirements and staff/management responsibilities in connection with these programmes.

18. The ethics office will work with the Office of Human Resources Management to provide ethics training and education that is interactive and practical to ensure that staff members understand how to use the staff regulations and standards of conduct in their daily work activities. Training could take the form of instructor-led classes, computer-based training or a combination of both, and would include discussion of real-life situations posing ethical dilemmas.

19. All staff will be required to undertake ethics training annually and will receive a certificate after completing each training programme. The ethics office will monitor compliance with the annual ethics training requirements and notify staff members of their obligations in this regard.

20. Specialized training modules will be developed for senior managers and for officials working in specialized and/or sensitive areas, including procurement, recruitment and investment.

21. In this connection, it is relevant to note that steps have already been taken to include ethics components in all of the Organization's training programmes. In addition, an Intranet-based training module on integrity and ethics called the Integrity Awareness Online Learning Programme was launched on 12 September 2005, and has already been successfully completed by 2,464 staff. The Secretary-

General intends that all levels of Secretariat staff shall be required to complete the module. A half-day ethics training programme entitled "Working together: ethics and integrity in our daily work" is currently being undertaken by all Department of Management staff and will be expanded in the months ahead to include all United Nations Secretariat staff.

C. Organizational structure and location of ethics office

22. The ethics office, like the Office of the Ombudsman, the Administrative Tribunal, the Board of Auditors and secretariat of the Advisory Committee on Administrative and Budgetary Questions, would be under the budget section on programme budget, Overall policymaking, direction and coordination. Organizationally, it would also be located outside the Executive Office of the Secretary-General in order to guarantee its independence and to ensure that the staff of the ethics office were recruited in a transparent manner through established procedures. As with the Ombudsman, it is proposed that the head of the ethics office be appointed at the level of Assistant Secretary-General for a fixed, non-renewable five-year term.

23. It is essential that the head of the ethics office be appointed at a very senior level to command the respect of all staff, Member States and external stakeholders as the face of the United Nations on issues of ethics and integrity. The head of the office will need to be an eminent senior person with recognized expertise and scholarship in the field of organizational ethics and with a track record of successfully applying ethics and integrity initiatives in international organizations. The head of the office will be accountable for providing leadership and communicating the vision throughout the global Secretariat on matters relating to ethics at the United Nations, including the promotion of ethical standards and establishing policy recommendations and guidelines to deal with new or evolving ethics issues.

24. The ethics office will be the focal point on ethics issues for the global United Nations Secretariat, including offices away from headquarters, regional commissions, special political missions and peacekeeping missions.

25. While the ethics office will be headquartered in New York, it is considered necessary that liaison offices also be established in Geneva, Vienna and Nairobi for the following reasons:

(a) The importance of maintaining the highest ethical standards would be more readily perceived as a matter affecting all staff worldwide and not as a purely Headquarters issue if ethics liaison offices were established at other duty stations. This is particularly important in the light of the significant increase in the number of disciplinary cases from peacekeeping missions, especially with regard to sexual exploitation issues, and from other United Nations offices with a large presence in the field, such as the Office of the United Nations High Commissioner for Refugees, which has seen an increase in fraud cases in recent years;

(b) The liaison offices would serve as the focal points on ethics issues for staff in the offices away from headquarters, regional commissions, special political missions and peacekeeping missions in the respective regions; at the liaison offices staff could more readily seek ethics advice, lodge complaints of retaliation, etc.,

with a person who was in the same or a similar time zone and who had some knowledge of the offices and staff involved;

(c) The liaison offices would be able to follow up on the submission of financial disclosure forms for staff at other duty stations and provide advice and guidance to staff in filling out the forms. The liaison offices would also coordinate ethics training and education for staff at those other duty stations. In addition, they would coordinate with other relevant offices in the region, including the Office of Internal Oversight Services, in order to build working relationships for making referrals;

(d) The liaison offices would be able to provide valuable insights into local situations and the way in which ethics issues are perceived by other cultures, which may not be readily apparent to staff at Headquarters;

(e) The staff in the liaison offices could travel more easily and at less expense to regional commissions, and to peacekeeping and special political missions in Africa, Europe and the Middle East, than staff in the ethics office at Headquarters.

Annex II

Terms of reference for the comprehensive review of governance arrangements, including an independent external evaluation of the auditing and oversight system within the United Nations and its funds, programmes and specialized agencies

I. Overview

1. Pursuant to paragraph 164 (b) of General Assembly resolution 60/1, the independent external evaluation will be conducted and shall consist of a review of best practice governance and oversight structures within the public and private sectors, a comparative analysis of governance and oversight structures within the United Nations and its funds, programmes and specialized agencies, the development of detailed options for model governance and oversight structures and mechanisms for the United Nations and a representative sample of its funds, programmes and specialized agencies.

2. The evaluation shall also include a review of the Office of Internal Oversight Services (OIOS), as part of the United Nations oversight machinery. It will include the development of options for the optimal level of independence, organizational structure and resource requirements that meet identified best practices.

II. Scope

3. This independent external evaluation will consist of two main elements: a governance and oversight review, to be completed within two phases; and a review of OIOS, providing audit, investigation, inspection, programme monitoring, evaluation and consulting services to the Secretary-General and the General Assembly.

4. Phase 1 of the governance and oversight study will apply to the United Nations and its funds, programmes and specialized agencies. Phase 2 of the governance and oversight study will only cover the United Nations and a representative sample of its funds, programmes and specialized agencies as determined by the High Level Committee on Management. The review of OIOS will be undertaken in parallel and in conjunction with the governance and oversight review.

5. The tasks shall be to:

(a) Identify best international practices and models in governance, oversight and audit within the public and private sectors, including but not limited to:

(i) Accountability, audit and oversight;

(ii) Management and its relationship with the members, governing bodies and other subsidiary organs, staff and wider stakeholders of the organizations;

(iii) Focusing upon purpose and outcomes;

(iv) Performing effectively in clearly defined functions and roles;

(v) Promoting values for the whole organization and demonstration of the values of good governance and oversight through behaviour;

(vi) Taking informed, transparent and effective decisions in all areas, including performance, risk and financial management;

(vii) Providing the support and capacity for governing structures to make effective decisions;

(b) Study, through desk research and interviews, the mission statements, objectives, mandates and related founding documents of the United Nations and its funds, programmes and specialized agencies, taking into account broader relations within the United Nations system and the authority of governing bodies and other existing governance mechanisms. This research, together with the best internal practices identified in subparagraph (a) above, should be brought together to determine the optimal models of governance and oversight that will:

(i) Engender and promote the highest standards of ethics and organizational values and ensure that processes are in place to protect and advance the integrity and reputation of the organizations;

(ii) Promote accountability to members, stakeholders and the general public;

(iii) Deliver value for money outputs and services;

(iv) Enable effective balance and engagement of the interests of members;

(v) Improve management effectiveness and transparency;

(c) Undertake a review of OIOS with the primary objective of providing a basis for decision-making with respect to the appropriate level of independence from management, the adequacy of resources compared to its remit, the appropriate breadth of functions to be provided by OIOS, its reporting mechanisms and the organization and structure of OIOS for optimum resource utilization and effectiveness, given the complex structure of the United Nations. This review will also include, but is not limited to, the following:

(i) To benchmark OIOS against similar audit and oversight bodies;

(ii) To undertake a review of the breadth of functions provided by best practice internal audit and oversight functions, to identify any gaps and propose options as to where these functions should best be carried out;

(iii) An evaluation of the appropriate level of independence of OIOS from management, in particular with respect to funding, budgetary control and human resources management, and to recommend options for a fair and neutral mechanism for the adjudication of budgets for OIOS, within the framework of the proposed independent audit advisory committee;

(iv) The establishment of a detailed costed plan for the implementation of the above recommendations, as well as a framework for the continuous monitoring and evaluation of the success of the implementation.

III. Required outputs

6. In drawing together the results of the study, a number of outputs will be required.

A. Governance and oversight

7. The review of governance and oversight may be satisfied within two phases:

(a) The first report shall identify suitable best international practice in governance and oversight and undertake a gap analysis between the identified best practice in governance and oversight and those applied at the United Nations and its funds, programmes and specialized agencies, informing the whole system of issues of global relevance;

(b) Building upon the first report, the second report shall review the costs and effectiveness of the current governance and oversight structures and determine changes to the existing governance and oversight structures that will strengthen the fiduciary capability, transparency, efficiency and effectiveness of the United Nations and the representative sample of its funds, programmes and specialized agencies to be studied, taking into account ongoing simplification and harmonization initiatives. This report should, inter alia:

(i) Clarify the role and responsibilities of management with respect to supporting Member States, governing bodies and other subsidiary organs, staff and other interested stakeholders;

(ii) Define, for the purposes of governance and oversight, the required committees, boards and other management and inter-agency bodies, including the provision of draft constitutional documents, reporting lines and key practices for Member States, management and oversight bodies alike;

(iii) Define, for the purposes of governance and oversight, the necessary inter-agency bodies, their membership, key practices, roles and responsibility towards providing value added services to the United Nations and its funds, programmes and specialized agencies;

(iv) Define the functions required within each committee, board and management and inter-agency body and their respective roles and responsibilities within the governance and oversight machinery;

(v) Identify value statements for the decision-making process of each board or committee underlying the governance and oversight functions of each organization, incorporating the principles of collective responsibility for decisions and the equality of status in discussions and models of conduct;

(vi) Propose measures that will increase transparency of the decision-making process at all levels within the organizations, including policies relating to the publication of statements of their purposes, strategy, plans and financial statements, as well as information about their outcomes, achievements and the satisfaction of service users during the previous period;

(vii) Propose measures to improve the communication channels, learning and knowledge management within and across the governance and oversight mechanisms;

(viii) Identify appropriate key performance indicators for the performance management of external audit services;

(ix) Establish detailed costed plans for the implementation of the above recommendations.

B. Review of the Office of Internal Oversight Services

8. To develop a fully costed implementation plan for OIOS that shall take into account all of the findings and recommendations resulting from the review of OIOS, including, as appropriate, the vision of the Under-Secretary-General for Internal Oversight Services, which clearly defines, but is not limited to:

(a) The level of operational and managerial independence from the management of the organizations and the appropriate oversight apparatus for OIOS;

(b) The services and responsibilities to be satisfied through OIOS and those that should be satisfied elsewhere;

(c) The optimal organizational structure and adequate resource requirements;

(d) The source of funding and cost-sharing mechanisms for services provided on an internal and intra-agency basis;

(e) Strategies to ensure the provision of value added services through OIOS, including programmes to maintain and update skills, keep abreast of developments within the internal audit and oversight arenas;

(f) The strategy to continuously benchmark the performance of OIOS against other such service providers.

C. Procedures

9. A Steering Committee, composed of five internationally representative independent experts in the field of governance and oversight, including as appropriate expertise in international public management, shall be established by the Secretary-General, with the responsibility to coordinate and supervise the development and implementation of the entire project. Its mission shall be performed through regular meetings.

10. The Steering Committee shall work in full consultation with OIOS, the Panel of External Auditors (including the Board of Auditors), the Joint Inspection Unit and the High Level Committee on Management, as necessary.

11. The results of each phase of the study will be compiled within reports that shall be submitted to the Steering Committee. These progress reports shall be presented to the Steering Committee, for its consideration. These reports should cover aspects such as:

(a) Progress achieved during the period in respect of the technical research and drafting of the evaluation study;

(b) Delays in the evaluation and corrective measures to recover these delays.

12. The Steering Committee shall submit the reports on governance and oversight to the Secretary-General, and to the Executive Heads of participating agencies, funds and programmes, as relevant. The Steering Committee shall submit the report

of the review of OIOS to the Under-Secretary-General for Internal Oversight Services. The Steering Committee shall submit a full and final report on governance and oversight, incorporating the review of OIOS, to the Secretary-General for transmission to the General Assembly.

13. The evaluation shall be conducted in close cooperation with the United Nations and its funds, programmes and specialized agencies so as to maximize the use of internal resources and to make sure that at the end of the project, staff have acquired an extensive knowledge of the proposed solutions.

D. Selection criteria

14. Selection of the consultants will be made on an international competitive basis based upon the following:

(a) Demonstrated experience in undertaking similar projects successfully within large public sector and/or multinational clients and international non-governmental organizations;

(b) Demonstrated capability to develop, adapt and apply best practice methodologies and principles successfully to the client organizations;

(c) Demonstrated understanding of the needs of stakeholders, as well as the financial framework and governance and oversight structures of large public sector and/or multinational clients;

(d) Demonstrated understanding of the varying issues facing locations spread globally and the ability to produce solutions that can be applied successfully to global operations.

IV. Timeline

15. The first phase report on governance and oversight is required by April 2006, and the final consolidated report on governance by 31 May 2006. The report on OIOS is also required by April 2006. Given the close interrelationship between oversight services and governance, the successful consultancy may choose to deliver the second phase of the governance report earlier, as appropriate.

Annex III

Provisional[a] terms of reference for the Independent Audit Advisory Committee to the United Nations

A. Role

1. The Independent Audit Advisory Committee serves in an expert advisory capacity to the General Assembly. It aims to help the General Assembly better exercise governance responsibilities with respect to the various operations of the United Nations.[b]

B. Composition and selection of expert members

2. The Committee shall comprise of five or seven members, all of whom are independent of the United Nations Secretariat and the Governments of Member States. The criteria for independence are set out in appendix A to the present annex. Candidate members are nominated by the Secretary-General, and are subject to the approval of the General Assembly. The appointed Committee members shall select their own Chairperson from within appointed Committee members. New appointments to the Committee will follow the same appointment process.

Qualifications of expert members

3. All of the members should have recent and relevant financial experience. The criteria for financial experience are set out in appendix B to the present annex. Committee membership should reflect a broad geographical distribution and include a balance of representation with public and private sector experience.

C. Meetings and reporting

4. The Committee will meet in closed session at least four times per year. The quorum will consist of any three out of five or any five out of seven members of the Committee. Invitees to the Committee meetings would be limited to those who are familiar with, or responsible for, the topics on the agenda. Such invitees may include representatives of the United Nations Board of Auditors and the Under-Secretary-General for Internal Oversight Services. Other members of senior management may attend Committee meetings by special invitation.

5. The Committee will maintain its own record of meetings and the Chairman will regularly brief the Secretary-General on the Committee's findings.

6. The Committee shall prepare an annual report to the General Assembly that describes the work of the Committee in discharging its responsibilities. The

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[a] Pending consideration of these terms of reference in the context of the comprehensive review of governance, including the independent external evaluation of the auditing and oversight system, as mentioned in paragraph 13 of the main text of the present report.

[b] At present, it is proposed that this Committee will provide advisory services with respect to the operations of the United Nations, but not its funds and programmes.

Committee chairman shall attend hearings to respond to any questions of Member States on the Committee's activities.

7. The Committee shall provide an annual performance evaluation of its work to the General Assembly. The Committee shall review periodically the adequacy of these terms of reference and recommend where necessary proposed changes to the General Assembly for approval.

D. Functions

8. The Committee directly assists the General Assembly in fulfilling governance and oversight responsibilities. Its primary functions are:

(a) To review the budget of the Office of Internal Oversight Services (OIOS) and make recommendations to the General Assembly for approval of its budget;

(b) To discuss with management and the United Nations Board of Auditors the audited financial statements and monitor the integrity of the financial statements and other such information required by members;

(c) To review the systems of internal control and risk management and compliance with those systems and with policies and regulations;

(d) To review any material weaknesses and monitor compliance with corrective action plans;

(e) To advise the General Assembly on such recommendations as the Secretary-General may make for the appointment of an Under-Secretary-General for Internal Oversight Services;

(f) To review and approve the audit work plan of OIOS;

(g) To provide comment and input to the workplan of the United Nations Board of Auditors;[c]

(h) To assess the work of OIOS, and the effectiveness and objectivity of the internal audit process;

(i) To consider the effectiveness and objectivity of the external audit process;

(j) To ensure that the United Nations Board of Auditors and OIOS do not encounter any difficulties in the course of their audits, such as any restrictions on the scope of its work, access to required information or insufficient resources to fully carry out its work. The Committee shall assist in resolving such restrictions and report thereon to the Secretary-General and the General Assembly.

E. Mode of operation

9. The Committee shall conduct its activities as follows:

[c] Noting that the United Nations Board of Auditors is independent and is solely responsible for the conduct of its audits.

Audit process

(a) Provide an open avenue of communication between the Committee, the United Nations Board of Auditors, OIOS and management, meeting separately with these parties at least annually;

(b) Keep under review the scope and results of the audit of the United Nations Board of Auditors and OIOS, their cost-effectiveness and report periodically to the General Assembly on Committee findings;

(c) Examine the single audit principle so as to ensure full compliance therewith;

External auditors

(d) Determine the qualifications and expertise criteria for the selection of candidates to the United Nations Board of Auditors and advise on the extent to which candidates meet those requirements prior to election to the United Nations Board of Auditors;

(e) Make recommendations on the remuneration to be paid to the United Nations Board of Auditors;

(f) Obtain and review an annual formal activity report from the United Nations Board of Auditors that includes information on its internal quality assurance procedures;

(g) Review with the Controller, the Under-Secretary-General for Management and the United Nations Board of Auditors the scope and results of the external audit and any significant findings reported in management letters;

Internal auditors

(h) Ensure that OIOS is adequately resourced and continues to have appropriate standing within the United Nations and keep under review its independence and objectivity;

(i) Review and make recommendations to approve changes to OIOS functions, including:

(i) Purpose, authority and organizational reporting lines; and

(ii) Annual audit plan, budget and staffing;

(j) Consider with the United Nations Board of Auditors and the Under-Secretary-General for Internal Oversight Services the internal audit programme and any significant findings, including fraud, illegal acts, deficiencies in internal control or similar issues and review management's responsiveness to the auditors' findings and recommendations;

(k) Monitor and assess the role and effectiveness of the Under-Secretary-General for Internal Oversight Services and OIOS function;

(l) Advise the General Assembly on important issues arising from the annual report of OIOS;

Internal control and risk management

(m) Review the United Nations system of internal control, including financial, operational, compliance controls and evaluate the effectiveness of risk management;

(n) Review the risk management procedures together with OIOS and the United Nations Board of Auditors and executive management;

(o) Ensure that OIOS is applying sufficient resources to areas of material concern and of high risk to the Organization and that the OIOS workplan takes into consideration of other important oversight trends;

Financial reporting

(p) Monitor the integrity of the financial statements and internal controls of the United Nations;

(q) Evaluate changes in accounting principles to determine the appropriateness of accounting principles and financial disclosure practices;

General issues

(r) Review the coverage of the respective oversight bodies to assure Member States that there are no persistent gaps and inconsistencies;

(s) Retain as appropriate independent professional advice in order to follow up on any matter brought to its attention, within the scope of its duties, and while observing the mandates of the United Nations Board of Auditors and OIOS;

(t) Ensure that the United Nations has adequate arrangements for employees to raise concerns in confidence about possible improprieties relating to accounting, internal accounting controls or auditing matters, as well as for confidential submissions by employees of concerns regarding questionable accounting or auditing matters;

(u) Review and update as necessary its terms of reference at least every three years, recommending any changes to the General Assembly and to evaluate its own performance on a regular basis.

F. Terms and conditions of service

10. Terms and conditions of service of members of the Committee will be comparable with those of the regular members of the Advisory Committee on Administrative and Budgetary Questions and the International Civil Service Commission. This stipulation includes the position of the Chairperson, who unlike the Chair of the Advisory Committee on Administrative and Budgetary Questions will have identical terms and conditions to other Committee members. The terms of service will be term limited to a single three-year term.

G. Secretariat support

11. The Committee shall be supported by a Secretariat.

Appendix A

Criteria for defining the independence of members of the external committee

1. For a candidate committee member to be considered independent she/he may not have any material relationship[a] with the United Nations, either as an executive officer or significant shareholder of a company that has a relationship with the United Nations, its funds, programmes and specialized agencies.

2. In addition a candidate will not be considered independent, if she/he:

(a) Is or has been an employee of the United Nations within the last three years;

(b) Is or has been a member of the Government of a Member State within the last three years;[b]

(c) Has an immediate family member[c] who is or has been a senior official[d] of the United Nations within the last three years;

(d) Has an immediate family member who is or has been a senior member of the Government of a Member State within the last three years;

(e) Has received or has an immediate family member who has received during any 12-month period within the last three years more than $100,000 in direct compensation from the United Nations (other than committee fees);

(f) Is a current employee of the OIOS or an employee of a member of the United Nations Board of Auditors;

(g) Or an immediate family member is or has been within the last three years employed as an executive officer of a company where any of the United Nations present senior management served at the same time on that company's compensation committee;

(h) Is a current employee of a company that has made payments to or received payments from the United Nations in any of the last three fiscal years in excess of the greater of $1 million or 2 per cent of the consolidated revenues of the company;

(i) Has an immediate family member who is a current executive officer of a company that has made payments to or received payments from the United Nations in any of the last three fiscal years in excess of the greater of $1 million or 2 per cent of the consolidated revenues of the company;

(j) Holds any other Board mandates or Member State Government appointed position that might infringe on his/her independence;

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[a] "Material relationship" meaning: United Nations accounts for more than 2 per cent of the candidate's income, or the candidate's company sales or purchases of products and/or services, during the preceding three years.

[b] Former national civil servants are not included within this restriction.

[c] Immediate family member meaning: spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the candidate's home.

[d] Meaning any position at the ASG level or higher.

(k) Held an interlocking directorship over the past three years between the companies related to the candidate and the United Nations;

(l) Has entered into or accepted directly or indirectly any consulting, advisory or other compensatory fees from the United Nations other than in his capacity as a committee member (compensation for committee services).

Appendix B

Criteria for defining the financial experience of members of the external committee

1. The committee would consist of five or seven extremely well-qualified individuals who have recent and relevant financial experience. All members of the committee must be able to read and understand financial statements.

2. Committee membership should include a balance of representation with public and private sector experience, noting the independence requirements articulated in annex I to the present report.

3. Experts should be drawn the field of candidates who have held senior management or executive positions that involve one or more of the following:

- Technical competency in understanding financial statements and reporting, generally accepted accounting principles, audit and investigation
- Prior membership of an audit committee of a private corporation or public sector body
- Understanding of internal controls and procedures for financial reporting
- The setting or compliance with international internal or external audit standards
- The setting or compliance with international accounting standards
- Independence, integrity, objectivity and discipline.